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FISCAL IMPACT STATEMENT

LS 6902 **NOTE PREPARED:** Dec 28, 2003
BILL NUMBER: SB 229 **BILL AMENDED:**

SUBJECT: Funding of Development in Distressed Counties.

FIRST AUTHOR: Sen. Skillman **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State
X DEDICATED
FEDERAL

Summary of Legislation: The bill reduces the unemployment rate required to qualify a county as a distressed area for purposes of funding industrial development projects from 2% above the statewide average to 1.5% above that average. The bill also repeals the expiration provision in the law providing for funding of industrial development projects in distressed counties.

Effective Date: July 1, 2004.

Explanation of State Expenditures: Under current statute, the Indiana Development Finance Authority (IDFA) must review and designate industrial development tax allocation areas in distressed counties (see *Explanation of State Revenues*). The Department of State Revenue (DOR) is responsible for determining base (sales and income tax) allocation amounts for purposes of tax allocations in industrial development project areas.

Explanation of State Revenues: The bill could potentially increase the number of counties that could qualify as "distressed counties" and establish industrial development tax allocation areas. Potentially, five additional counties (Jay, Pulaski, Randolph, Steuben, and Vermillion) could qualify for industrial development tax allocation areas under this bill. Current statute provides for the allocation of incremental state Sales, Use, and Adjusted Gross Income (AGI) tax revenue in these areas. The amount of incremental tax revenue that could potentially be allocated to pay the costs of tax allocation projects within additional "distressed counties" is indeterminable, but is limited by current statute. Tax allocations in each qualifying county are limited to a total of $500,000 and to a duration of two years after the tax allocation area commences. The amount of incremental tax revenue diverted to tax allocation projects presumably does not represent a revenue loss to the state to the extent that the incremental revenue is attributable to the industrial development project or subsequent economic activity in project facilities. However, the state does incur a revenue loss to the extent that the diverted revenues are attributable to underlying growth in tax revenue within the project areas.

Background: Current statute provides for the allocation of incremental state Sales, Use, and Adjusted Gross Income tax revenue to pay for industrial development projects designated by the Indiana Development Finance Authority. Currently, these provisions would expire on July 1, 2005. These tax allocation projects are limited to counties determined to be "distressed" by the Department of Workforce Development (DWD). The DWD annually must provide to the IDFA a list of the counties that meet distress criteria for purposes of designating tax allocation projects. A county is distressed if (1) the county annual unemployment rate exceeds the state annual unemployment rate in each of the preceding two calendar years by at least 2%; or (2) the county annual unemployment rate is at least double the state annual unemployment rate in the preceding calendar year.

The bill lowers the first unemployment criterion from 2% to 1.5% of the state annual unemployment rate. In addition, the bill eliminates the sunset provision. In August 2003, the DWD listed nine counties as distressed (Blackford, Fayette, Fulton, Greene, Lawrence, Miami, Orange, Starke, and Washington). According to the IDFA, no county has established an industrial development tax allocation area at this time.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Workforce Development, Department of State Revenue, Indiana Development Finance Authority, Auditor of State.

Local Agencies Affected:

Information Sources: Patty Yount, Department of Workforce Development, (317) 234-0263; STATS Indiana, http://www.stats.indiana.edu/laus

Fiscal Analyst: Jim Landers, 317-232-9869.